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SUBJECT: WEST BENGAL AFTER THE NANO: INVESTMENT CLIMATE IS BLEAK

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[1](#)1. (SBU) Summary: Three months after Tata withdrew its Nano project from West Bengal in the face of violent opposition against land acquisition, the investment climate in West Bengal is bleak. The Government of West Bengal (GOWB) has not developed a strategy to repair the state's damaged image and does not appear to be addressing the underlying problem of acquiring agricultural land for industrial development. In the absence of government initiative, a leading business daily produced a blueprint business plan entitled "Kolkata 2010" that has gotten the business community talking about improving West Bengal's post-Nano investment climate. However, it is unlikely the GOWB will be able to implement this or any plan before state assembly elections in 2011 if it is unable to effectively counter and address a political opposition that is set on challenging the ruling party's control of the state government. End Summary.

West Bengal's Chief Minister Loses His Positive Image

[1](#)2. (U) On October 3, Ratan Tata cancelled his company's plans to manufacture its new small car, the 'Nano', in a factory in Singur, West Bengal. Despite having almost completed construction of a new factory and being on the verge of producing its first Nano, Tata closed the factory and shifted the project to Gujarat as a result of local protests over land acquired for the factory and ancillary units (Reftel A). Even worse than losing a potential USD 300 million investment, West Bengal appears to have lost the investor friendly image that Chief Minister (CM) Buddhadeb Bhattacharjee had painstakingly built up over the past decade. The ruling Left Front government and particularly the Communist Party of India Marxist (CPM) appears to have lost its absolute political hold on the state, with leading opposition party, All India Trinamool Congress (TMC), challenging the state at every turn, particularly over land acquisition for industrial projects. While CPM has ruled the state for 31 years and dominates the legislative assembly with 176 members compared with TMC's 29 members, the recent Panchayat elections held in May-June 2008 indicate that its hold is weakening (Reftel B). The Left Front's share of village council seats declined from 71 percent in 2003 to 50 percent in [1](#)2008. Whereas in 2003 the TMC failed to win a single district council, in 2008, they won two of the 18 on the strength of their pro-farmer stance against CPM's 'land-grabber' image.

[1](#)3. (SBU) West Bengal's image problems have been compounded by the worldwide financial crisis and an increase in violent protests throughout the state. On November 2, JSW Bengal Steel

Limited broke ground on a USD 7 billion integrated steel factory in Salboni, West Midnapore district of West Bengal. The company's managing Director, Biswadip Gupta, told ConGen that due to low international steel prices and weak demand conditions, JSW would scale back its initial launch from ten to three million tons per annum of steel production. The GOWB's attempt to rebuild its public image at the steel plant groundbreaking ceremony failed when the CM's motorcade, which included two Union Ministers, was targeted by an improvised explosive device on the return to Kolkata. In their search for the alleged Maoist perpetrators (the Maoists had claimed responsibility for the attack), the police detained tribals from the surrounding villages of Lalgarh. This led to a further backlash as villagers blockaded the area and refused to allow the administration to enter or function. The TMC jumped on the opportunity to further mobilize public opinion against the state government in this traditionally Left stronghold.

#### Politics Prevail Over Economics

14. (SBU) Most contacts believe that TMC will use every opportunity available to challenge the GOWB, hoping to gain more seats in the Parliamentary elections scheduled for April or May this year as a step towards ending three decades of CPM rules in West Bengal in state assembly elections in 2011. Partha Chatterjee, the leader of West Bengal's opposition and a senior TMC leader told ConGen that they oppose "land grabbing" for special economic zones and are against the entry of large private concerns in agro-business. He also suggested that future investors should clear their project plans with TMC in order to avoid problems in implementation. In private discussions, GOWB officials acknowledge that TMC is taking advantage of cracks in Left Front leadership and they expect TMC will continue to agitate against land acquisition as a way to gain votes. One senior CPM official told ConGen that he does not expect anything will happen in the state until after the 2011 state assembly elections. The CM and Nirupam Sen, Minister

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of Industry, both normally easily accessible to ConGen, have declined the ConGen's request to meet to discuss the GOWB's strategy for improving West Bengal's investment image.

#### Media Initiates Business Dialogue

15. (U) While a number of business associations and chambers of commerce in Kolkata discussed the financial repercussions of the Tata pullout, they failed to produce any concrete action proposals for the GOWB to improve the investment climate. One of the leading business publications, the Economic Times, has partially filled this void and instigated a discussion amongst private and public companies, foreign investors and private citizens in a series of articles entitled Kolkata Inc. 2010: The Business Blueprint. On December 12, the paper presented its key findings to the CM. The plan focuses on the problem of land acquisition and suggests the creation of a government owned land bank that potential investors can use for projects, outright private company land ownership and improved compensation packages to include employment and training opportunities. In an interactive session with the business community to review the Economic Times proposal, the CM endorsed the idea of a land bank for industrial projects, but limited it to non-fertile agricultural land, a scarce resource in this rich agricultural state.

#### Comment

16. (SBU) The CPM is clearly shaken by Tata's withdraw from Singur and appears unable to internalize the lessons of Singur and develop a new strategy for industrialization and private sector investment in the state. With TMC taking advantage of CPM's current weakness every new land acquisition for private industry is a potential powder keg. While efforts by the Economic Times and others to initiate a dialogue between the government and industry are positive steps, it is unlikely they will convince CPM or TMC to set aside politics in order to

promote economic growth in the state. As a result, it is unlikely that West Bengal will win many new large-scale investments until the CPM is able to effectively counter the challenge from the now legislatively insignificant, but more importantly, vocal and agitating TMC aspirant.

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